

As the Wheel of Fortune Turns: Casinos Revisited

BY ARTHUR W. WRIGHT

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What denizen of Connecticut in 1986 would have suspected that, in just two decades, New London County would be weaning itself off submarines, but still flexing labor market muscle, buoyed along by two world-class gaming casinos?* Unlikely it may be, but the underlying process is transforming southeastern Connecticut from the Submarine Capital of the World into a potential New England Las Vegas East.

Of course, The Fates are still rolling the dice: Will the Town of Preston opt for the Utopia theme park? What will Rhode Island and Massachusetts decide to do on their proposed casinos? Will other Indian tribes in the region gain Federal recognition? And will the vaunted Foxwoods-MGM Mirage partnership prove ... well, a mirage? Stay tuned to the never-ending saga of Indian gaming in Connecticut.

Civilization and its discontents. The Soviet Union collapsed in 1989—and undercut the U.S.'s strategic need for submarines. The U.S. Supreme Court decided an obscure dispute in favor of the Cabazon Indians and against the State of California—which led to Congress's passing the Indian Gaming Regulatory Act (IGRA) of 1988. In Connecticut, a handful of entrepreneurial Mashantucket Pequot and Mohegan Indians—whose tribal reservations just happened to lie near I-95, I-395, and Connecticut Routes 2 and 2A—proceeded to build a pair of destination-resort casinos beyond the wildest imaginings of Jill Q. Nutmegger.

A key non-Indian player was then-Governor Lowell Weicker. The former Senator fought the Mashantucket Pequots' casino project at every turn until he lost, then struck a deal that allowed them (exclusively) to add slot machines—highly profitable but not covered by IGRA in Connecticut—in return for a State royalty of 25% of their slots "win" (total handle less payouts). The two sides added another seat at the table when the Mohegans opened their casino in 1996. Barring another economic slump, the State of Connecticut is in danger of earning half a billion dollars from its casino royalties in FY 2007.

The improbable meteoric rise of Foxwoods and Mohegan Sun has had huge impacts, for good and ill, on the Norwich-New London metro area. Other tourist ventures like Mystic Seaport have lucked into some of the backwash from the casinos. And without the casinos, it'd be crazy to propose building "Utopia"—an entertainment perplex akin to the Paramount/MGM-style theme parks—on the site of a former State mental hospital in the Town of Preston.

WAS IT REALLY GOOD LUCK?

For some, the advent of high-stakes casino gaming in Connecticut has been anything but a boon. Gambling opponents argue that the new casino jobs are not as "good" as the old ones at Electric Boat. The silver linings in the cloud are that the casinos have created thousands of new jobs in the region; both pay and benefits at the casinos can be pretty darned good; and, while the new jobs do entail enticing people to bet money at house

odds (don't forget the State's portion), the old jobs entailed building submarines with the sole purpose of making war.

Actually, compared with the rest of the state, the steady shrinkage of jobs at Electric Boat has not unduly depressed manufacturing employment in southeastern Connecticut. (Things will get worse, of course, as EB relocates southward much of its submarine maintenance and repair work.) Over the past fifteen years, the Norwich-New London Labor Market Area (LMA) has lost about a third of its manufacturing employment, according to U.S. Bureau of Labor Statistics (BLS) data for 1990-2005. But so has Connecticut as a whole, along with the Danbury and Hartford LMAs. New Haven has lost only a quarter of its jobs in the sector, but Waterbury and Fairfield County have taken hits of 40% and 44%, respectively.

Meanwhile, casino job growth has been on a tear. According to the BLS, employment in "local government" (where the casino jobs are found—the tribes are sovereign entities) in the Norwich-New London LMA grew 3.75 times—that is, by 275%, with some 24,500 additional jobs—in 1990-2005. In contrast, New Haven saw a slight decline, while the other four major LMAs realized gains of 18-29%. Of course, some of the New London County growth in local government jobs came from area towns trying to cope with the economic surge spawned by the casinos.

Adding tens of thousands of jobs in a small region often creates additional "supporting" employment there. A rule-of-thumb is one new support-

ing job for each new post at "export" firms like the casinos. (They "export" their services to customers from Massachusetts, Rhode Island, and even New York, as well as the rest of Connecticut).

The full measure of the casinos' employment impact on New London and environs, then, likely tops 40,000 new jobs since early 1993, when Foxwoods opened its doors.

Part of the indirect effects should show up as above-average job growth in the private service-providing sector. Measuring from the nadir year of Connecticut's Great Recession of 1989-1993, statewide growth through 2005 came in at 16.3%, but the Norwich-New London LMA logged a 21.2% gain, trailed closely by Danbury (20.0%) and Fairfield (19.1%) with their ties to metro New York City. New Haven and Waterbury both saw 15.2% increases, while Hartford brought up the rear at only 7.3%.

ROLLING THE DICE IN CONNECTICUT

High-stakes Indian gaming casinos were not Connecticut's first brush with licit gambling. In colonial times, my fellow-editor Dennis Heffley reminded me, local governments regularly used lotteries to finance their operations. (Go to <http://www.colonialct.uconn.edu>, and search under 'L'.)

In modern times, the era of legalized gambling began in the mid-1960s, when state lotteries caught on (again). The Connecticut State Lottery drew its first reluctant breath in 1972, fully eight years after New Hampshire sold the first state lottery

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ticket in the land. Pari-mutuel betting (at race tracks and frontons) and then off-track betting (OTB) soon followed, in 1976 and 1977. More than a decade passed before the State sanctioned “charitable games” (bingo, sealed tickets, raffles and bazaars, and Las Vegas nights) in 1988—the same year Congress passed the IGRA.

Foxwoods Resort Casino, successor to a high-stakes bingo parlor dating to 1986, opened in early 1993, with one shift and some back-up employees, expecting to grow into the market if it proved big enough. In fact, the casino has never closed its doors since opening. A big enough market? The tribes had chanced on a mother lode of repressed (and suppressed) demand in New England and New York State for Las Vegas-style, destination-resort casino entertainment.

How did the Mashantucket Pequots ever raise the capital they needed to build the first stage of Foxwoods? The tribe struck out in conventional financial markets, but a Malaysian casino developer lent them the money. In the early 1990s, private financing of resort-casinos was still in its toddlerhood, apart from the experiences of Las Vegas (with its roots in organized crime) and Atlantic City (developed mostly by Las Vegas casino interests). Malaysian casino experience fit the Foxwoods prospectus much better: a brand-new resort in a remote location.

The growth of legalized gambling in Connecticut over its first two

decades doubtless piqued the Asian investor’s interest. (Refer to the graph.) Between 1973 and 1993, the State’s “special revenues” from gaming grew by an average of better than 15% per year. Even slots royalty growth could not match that—“only” 12.6% per year, 1994-2005. In their first full year, though, the slots accounted for fully a third of State special revenue, and by 2005, the share had reached 60%. The Malaysian investor’s confidence was justified. The arrival of Mohegan Sun in 1996 put a ding in Foxwoods’ growth, but *combined* casino business in southeastern Connecticut leapt in 1996-1998, judging by State special revenue data.

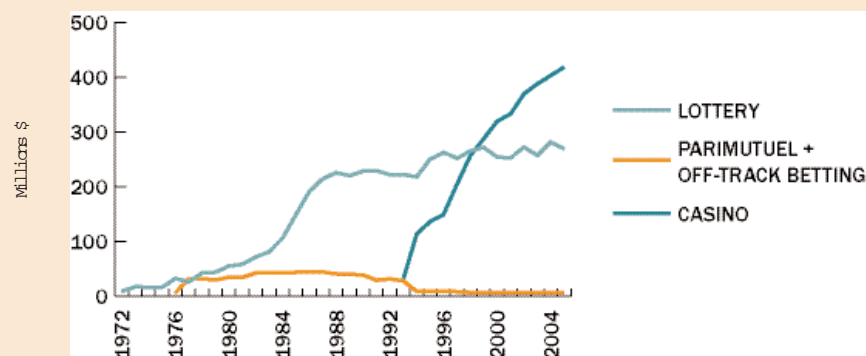
Did the entry of the casinos cut into other forms of gambling in the state? Not likely. Lottery special revenues jumped by nearly 21% between 1994 and 1996—immediately following the opening of Foxwoods. Arguably, State Lottery revenues these days are governed mainly by forces internal to the lottery business, such as the introduction and maturation of new games (*e.g.*, multi-state Powerball). And the decline of pari-mutuel betting preceded the casino era.

CONNECTICUT APPRECIATES YOUR BUSINESS

Governments in democracies like raising revenue from non-residents, who can’t vote the bums out in retaliation. Whence the speed trap in the sleepy small town, or New Hampshire’s siting of State-owned, cut-price liquor stores along its borders.

Connecticut may not have been so cunning as New Hampshire, but casino slots players from New York, Rhode Island and Massachusetts have been helping to fund State services in Connecticut since 1993. This all-too-obvious fact accounts for the constant rumblings about permitting casinos in those states. New York State is pushing modest-sized casinos, though to date only one (in the Catskills) is near the Connecticut border. Rhode Island

“SPECIAL REVENUES” FROM GAMING TRANSFERRED TO GENERAL FUND



Source: Connecticut Division of Special Revenue

sanctions slot machines at two existing betting venues (Lincoln Park and Newport Grand), and may hold a statewide referendum soon on a proposed Harrah's/Naragansett Indian casino in West Warwick (off I-95, less than 50 miles from Foxwoods and Mohegan Sun). And talk continues, without action, on a comparable project in southeastern Massachusetts, near I-495 or I-95.

How much money is at stake here?

Clyde Barrow at UMass-Dartmouth has studied cross-border casino traffic in recent years. Combining a 2004 "patron origins" survey at both casinos with financial data and some behavioral assumptions, Barrow has estimated state-by-state visits, total spending, and slots-royalty "contributions" to Connecticut's fisc in CY 2004 and 2005.

In 2004, about a third of Foxwoods customers, but only a fifth of Mohegan Sun's, hailed from Massachusetts. Rhode Island accounted for another 15% of Foxwoods patrons, but only 6% of Mohegan Sun's. New Yorkers favored Mohegan Sun (20%) over Foxwoods (11%), as did Nutmeggers (44% to 27%).

Why the differences (which have also shown up in other studies)? My best guess is simply location: it depends on whether one comes from the north and east (Foxwoods) or the west and southwest (Mohegan Sun).

The table shows estimated out-of-state spending (including non-gaming sales) and slots royalties at the two casinos in 2005. Clearly, Connecticut taxpayers ought to thank their neighbors for providing better than half of estimated total casino revenues and a yet greater share of slots royalties to the State treasury last year.

ENJOY IT WHILE WE CAN?

The big winners, economically, from Connecticut's plunge into big-time casino gaming have been the Manshantucket Pequots and the Mohegans, the southeastern Connecticut region, and the State's

purse. But how much longer will the good times roll?

The answer will turn on two separate sets of possible events. One is Federal certifications of Indian tribes, enabling them to open casinos under IGRA. From here, this set of events looks like a total crapshoot.

The other set, though—involving the barriers to entry of rival casinos in neighboring states—could well depend in part on decisions made in Connecticut. The voters of Preston, adjacent to both Mohegan Sun and Foxwoods, will soon vote on whether to allow the Utopia theme park to be built there. And the consternated outcry at the recent announcement of the partnership between Foxwoods and MGM Mirage could morph into effective opposition.

Arguably, a Utopia in Preston and a Foxwoods-MGM Mirage partnership would significantly enhance the spendor-and-glamor of Connecticut's already supersize casino-entertainment cluster. Either one, but especially both, would make it all the more difficult to field a competitive rival in either Rhode Island or Massachusetts.

Clyde Barrow has found that Rhode Island's Lincoln Park and Newport Grand, both of which already have banks of slot machines, attract a clientele quite different from that now coming to southeastern Connecticut's casinos. The different kinds of gaming do not compete much with each other. To compete effectively—and to attract the necessary financing—the new casinos would have to match the magnificence of the Connecticut casino/entertainment experience. With each enhancement in New London County, that just becomes more difficult to do.

*Disclaimer: Both Foxwoods and Mohegan Sun Casinos are Sustaining Partners of *The Connecticut Economy*. Neither was involved in any way in the preparation of this article, except to check for factual accuracy prior to publication. The author was a consultant to Foxwoods in 1993 (together with another editor, Dennis Heffley) and to Mohegan Sun in 1995.

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Connecticut since 1993.*

OUT-OF-STATE OUTLAYS AND SLOTS ROYALTIES AT FOXWOODS AND MOHEGAN SUN, CY 2005 (\$ millions)

	SPENDING	CONTRIBUTIONS TO CONNECTICUT'S FISC
Massachusetts	889.3	122.9
Rhode Island	322.5	44.5
New Hampshire	72.7	10.0
Maine	35.0	4.8
New York	409.8	58.3
Total	1,729.30	240.3

Source: Clyde Barrow (http://www.umassd.edu/cfpa/docs/gaming_update2006.pdf).